A Work Project presented as part of the requirements for the Award of a Master Degree in Finance from NOVA – School of Business and Economics

LNA Santé – The Home Care pioneer in France

Maria Inês Costa e Sousa de Sena Esteves | 25855

A Project carried out on the Master in Finance Program, under the supervision of:

Professor Luís Mota Duarte
Professor Fábio Soares Santos

03/01/2020

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Abstract:
Begun operating in 1992 and today is ready to be bought and to grow massively in the upcoming years. LNA Santé, the fifth French player in the long-term care market, will be acquired in 2019 in a Private Equity deal and will improve its operations in Europe. This deal is expected to return 3.1x the money invested by the fund and an internal rate of return of almost 26% with an exit in five years (2023). This successful exit is possible due to an ageing population that is set to increase demand for dependent care which is reflected in the number of nursing home beds forecasted to double.
By the time of exit, the firm will amount €828 M of revenues and €94 M of EBITDA streaming from consolidation of operations in the current operating countries – France and Belgium – and an internationalization bet in the Netherlands. It is presumed that this paper will inform how a deal in Private Equity in the long-term care market in Europe is conducted.

Key words:
Long-Term Care Market, Nursing Home, European Market, LNA Santé

This work used infrastructure and resources funded by Fundação para a Ciência e a Tecnologia (UID/ECO/00124/2013, UID/ECO/00124/2019 and Social Sciences DataLab, Project 22209), POR Lisboa (LISBOA-01-0145-FEDER-007722 and Social Sciences DataLab, Project 22209) and POR Norte (Social Sciences DataLab, Project 22209).

Forecasted Financials

FORECASTED FINANCIALS | Revenue Levers

LNA will grow 16% its revenues from 2019 to 2023. Inorganic growth is crucial for LNA to diversify its operations and keep growing its revenues. In the first three years, both acquisitions and greenfields will be the main drivers

SANTÉ

(millions €)	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Revenues	**538,8**	**716,5**	**766,1**	**862,5**	**822,0**	**828,2**	**848,6**	**871,7**	**898,6**	**930,5**
% growth		33%	7%	13%	-5%	1%	2%	3%	3%	4%
Revenue Levers*										
Operational		+10,0	+18,3	+18,6	+16,9	+13,0	+13,3	+13,5	+13,7	+13,8
Greenfields		-	+16,8	+29,2	+5,8	-	-	-	-	-
Acquisitions		+227,3	+0,2	+0,2	+0,2	+0,2	+0,2	+0,2	+0,2	+0,2
Internationalization		+20,4	+2,1	+2,8	+3,8	+5,1	+7,0	+9,5	+13,0	+17,8
Non-core		-80,0	12,2	45,5	-67,2	-12,3	-	-	-	-
Organic Growth		2%	5%	6%	3%	2%	2%	2%	2%	2%
Inorganic Growth		31%	2%	6%	-7%	-1%	1%	1%	2%	2%
Segments										
ALF	261,1	450,8	467,4	482,9	499,9	508,3	516,8	525,5	534,4	543,5
% Total Revenues	60%	64%	63%	62%	61%	61%	61%	60%	59%	58%
ACR	137,4	158,8	175,8	206,5	210,6	214,9	219,2	223,6	228,2	232,8
% Total Revenues	28%	22%	23%	24%	25%	26%	26%	26%	26%	27%
Home Care	38,7	96,5	98,9	101,5	104,1	105,5	107,0	108,5	110,0	111,5
% Total Revenues	8%	13%	13%	13%	14%	13%	14%	14%	14%	15%

Revenue Growth

- Revenue Growth will be 54% from 2018 to 2023 and it will correspond to a 5 and 7-year **CAGR** of **9%** and **7%**. In 2022 there is a decrease in revenue growth due to the end of revenue stream from real-estate.
- Operational efficiencies are mainly due a better allocation of beds (Annex 10). The number of beds per facility ratio increased **7%, 8% and 5%** in ALF France, ACR France and Belgium until 2023. Overall revenue increase due to pricing are reflected in the operational lever. The price increased **1,5% a year.**
- Greenfields will impact revenues in 2020, 2021 and 2022 with the construction of **6 new facilities** in France. Each construction only impacts revenues in the year of its launch because in the following years there won't be additional facilities.
- Acquisitions will have a higher impact in 2019 with the acquisition of **2 HC firms** in France and an **ALF/ACR firm** in Belgium. Acquisitions have a residual impact in revenues of €0,2 M due the expansion of patients visited in Home Care in France.
- Internationalization to the Netherlands will drive revenues in the first year with 1 **acquisition in ALF** segment and with the further progressive **expansion of Home Care** segment.
- Non-core revenues** reflect the sale of 1 previous greenfield and the six new constructions made between 2019 and 2021.
- Inorganic Growth is the main driver of revenue growth in 2019 as a reflection of the acquisitions made (31%). The following years, growth is mainly based in organic growth.
- Home Care will account **13%** of total revenues in 2023 as a response to the LNA's bet in this segment.

+ The Levers represent the incremental value that each Investment Thesis brings to the Revenue growth.

** The sale of greenfields was based on the current asset-light strategy of LNA Santé.

FORECASTED FINANCIALS | EBITDA Levers

LNA will increase its EBITDA margin from 9,3% to 11% in 2023. This increase is mainly due to operational efficiencies allied with robust revenue growth

SANTÉ

(millions €)		2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Revenues		**538,8**	**716,5**	**766,1**	**862,5**	**822,0**	**828,2**	**848,6**	**871,7**	**898,6**	**930,5**
Impact in EBITDA											
Revenue Change			9,5	11,7	14,8	2,0	1,7	2,5	3,2	4,7	6,5
Personnel Costs			5,7	0,3	-0,3	2,2	0,2	0,3	0,3	0,1	0,1
	% Total Rev		55%	52%	49%	51%	51%	50%	50%	49%	48%
Rents			-1,5	-0,1	0,1	-0,2	-0,1	-0,1	-0,1	-0,1	-0,1
	% Total Rev		29%	31%	30%	34%	35%	36%	37%	37%	38%
Others			-2,4	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
	% Total Rev		16%	17%	21%	15%	14%	14%	14%	14%	14%
Change EBITDA			11,4	11,8	14,5	4,0	1,8	2,7	3,5	4,7	6,5
EBITDA		**50,2**	**61,6**	**73,4**	**88,0**	**92,0**	**93,8**	**96,5**	**99,9**	**104,6**	**111,1**
	% EBITDA Margin	9%	9%	10%	10%	11%	11%	11%	11%	12%	12%
ALF Margin			8,9%	9,2%	9,3%	9,4%	9,2%	8,9%	8,6%	8,2%	7,9%
ACR Margin			9,7%	11,6%	14,4%	14,6%	14,7%	14,8%	14,8%	14,8%	14,6%
Home Care Margin			8,0%	9,9%	11,9%	13,8%	14,9%	16,2%	17,8%	19,7%	22,1%

EBITDA Margin Growth

- Personnel Costs are a driver of EBITDA growth due to the operational improvements in the number of employees per bed. This ratio improved and decreased 4 pp of revenues until 2023.
- Rents make a big part of LNA's cost structure and have a negative impact on the EBITDA margin. With the expansion of the business, the level of rents as a percentage of revenues will increase 6 pp until 2023. Rents in France and Belgium are already known values. In Netherlands the value of rents was assumed to be the average value spent by square meter in the long-term care industry.
- Other costs include external expenses and variation in finished goods assumed to remain constant as a percentage of revenues.
- In the ALF segment the margin will improve 0,3 modest pp until 2023 given that it its a well-established service and the improvements come with new synergies.
- In the ACR segment margins will grow 5 pp until 2023 given that it is a service with a track record of higher EBITDA margins. It is also the segment that LNA has invested more in operational efficiencies (e.g. more beds per facility).
- The Home Care segment will also see an increase of 6,9 pp in this margin mainly due to the entrance in Netherlands with a brand new and efficient model of home service.

FORECASTED FINANCIALS | CAPEX Expenditure

The majority of CAPEX investment was made in the first three years in a total amount of €107 M spent in 6 greenfield constructions and 4 acquisitions

(millions €)	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
CAPEX	**12,2**	**76,3**	**69,3**	**33,9**	**26,6**	**27,2**	**27,8**	**28,6**	**29,5**	**30,5**
Current Business	12,2	22,8	24,0	25,7	26,6	27,2	27,8	28,6	29,5	30,5
Greenfields		0,7	45,3	8,2	-	-	-	-	-	-
Acquisitions		44,7	-	-	-	-	-	-	-	-
Internacionalization		8,1	-	-	-	-	-	-	-	-
Changes NWC	**6,8**	**-6,5**	**7,4**	**15,8**	**-8,4**	**1,2**	**3,4**	**3,8**	**4,3**	**4,9**
Cash Conversion Cycle	97	69	69	69	69	69	69	69	69	69
Average Collection Period	62	53	53	53	53	53	53	53	53	53
Average Holding Period	76	64	64	64	64	64	64	64	64	64
Average Payable Period	42	47	47	47	47	47	47	47	47	47

CAPEX Expenditures

- CAPEX: The majority of the investment will be made in 2019 and 2020 with respective expansion CAPEX of €53,5 M and €45,3 M.
- Maintenance CAPEX is approximately 3% of revenues in every year and includes costs of extending the size of the properties, the refurbishment of beds and repairs of other assets.
- Greenfields expenditures are all in France and start in 2019 with 1 ALF and 1 ACR construction. Three other constructions are conducted in 2020 (1 in ALF and 2 in ACR) and 1 more in 2021 (in ALF). This sort of expenditure takes less investment capacity from LNA than acquisitions.
- Acquisitions are all made in 2019 so that by the time of exit the acquired facilities are fully optimized. In total, LNA will make 2 acquisitions in Home Care in France (10 facilities) and will acquire Vivalto Home in Belgium (24 facilities).
- Internationalization to the Netherlands accounts for the acquisition of Stepping Stones (12 facilities) and the expansion of the Home Care model.
- Changes NWC will increase throughout the years, except in the 2019 and 2022. The first is explained by an increase in accounts payables and the second is explained by the impact of non-core in overall revenues.
- Cash Conversion Cycle: For the past 4 years the firm has been decreasing the CCC in a very steep way. Until 2027, LNA Santé will have improved its CCC and stabilize it at 69 days for the firm to convert its investments into cash.

FORECASTED FINANCIALS | Forecasted Cash Flow

The firm will keep generating a good cash flow from Operations. In the first two years the FCF is subject to large CAPEX investments due to the aggressive expansion strategy. By 2023, the FCF will reach more than 40% of EBITDA

SANTÉ

Cash Flow Statement (millions €)	2019	2020	2021	2022	2023	2024	2025	2026	2027
NOPLAT	44,9	54,3	65,6	68,8	70,2	72,4	75,1	78,8	84,0
Depreciations	16,4	16,4	15,1	15,2	15,2	15,2	15,2	15,2	15,2
Change in Working Capital	-6,5	7,4	15,8	-8,4	0,8	3,4	3,8	4,3	4,9
CF from Operations	**54,7**	**78,0**	**96,4**	**75,6**	**86,3**	**91,0**	**94,1**	**98,4**	**104,2**
% Revenues	8%	10%	11%	9%	10%	11%	11%	11%	11%
Maintenance	22,8	24,0	25,7	26,6	27,2	27,8	28,6	29,5	30,5
Greenfields	0,7	45,3	8,2	-	-	-	-	-	-
Acquisitions	44,7	-	-	-	-	-	-	-	-
Internacionalization	8,1								
CF from Investments	**76,3**	**69,3**	**33,9**	**26,6**	**27,2**	**27,8**	**28,6**	**29,5**	**30,5**
FCF before Financing	**-25,0**	**-22,4**	**15,9**	**50,6**	**42,2**	**41,1**	**42,7**	**45,1**	**48,6**
% EBITDA	-41%	-31%	18%	55%	45%	43%	43%	43%	44%

- For a care home provider to operate and be financially secure in the short to medium term it must generate enough cash to adapt to the industry's movements and changes.
- Regulation is a major factor to consider in this industry to safeguard a good financial stability.
- Furthermore, in the first years, the firm invests aggressively in new investments however, it takes some time for all the new investments to become fully operational. There are some risks to take into account, when acquiring and building new facilities, that might impact the firm's Free Cash Flow generation.
- The acquired firms are good targets that are assumed to be ready for its acquisition and for the change of operations to LNA Santé. These acquisitions might take more time than expected and that would have an impact in the cash flow.
- Furthermore, the Greenfields also take time to construct and to be fully operational. Some delays in constructions would affect, once again, the cash flow generation.

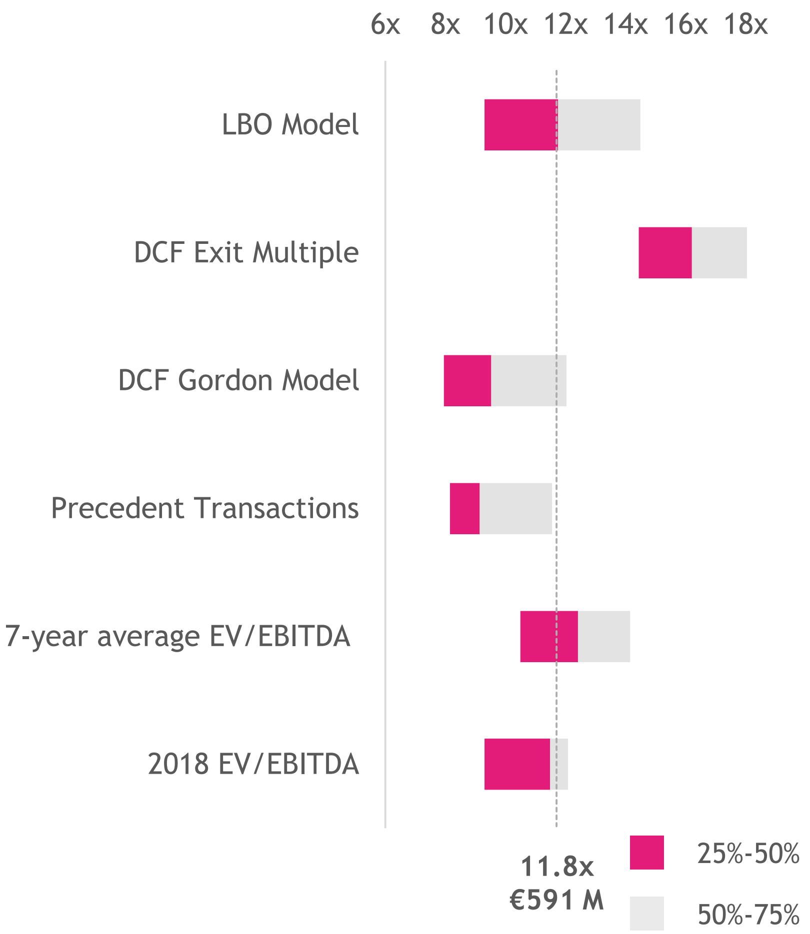
Valuation

VALUATION | Methodologies

To have a more accurate valuation of LNA Santé, different methods were used resulting in a multiple of 11.8x EBITDA, corresponding to a valuation of €591 M

The methodology applied focuses in diferent specifications of the market such as past similar transactions or historical valuations of comparable peers. It also takes into account intrinsic valuations based on DCF and LBO analysis. It is expected that the exit will occur in 2023, matching the full-optimization of the strategies implemented with the ability to face the debt repayment schedule.

Football Field



Valuation Methodology

Intrinsic Methodology

- **LBO Model:** in order to perform an accurate valuation of LNA, the LBO valuation was computed to optimize the fund's return and its credit statistics. Hence, through a multiple range of 15x – 9x, an IRR range of 24,8% - 26,4% was estimated.
- **DCF Gordon Growth Model:** another option used to value the company from an intrinsic perspective was a discounted cash flows analysis using the firm's WACC, with a cost of debt of 3,74%*. Afterwards, a perpetuity was calculated in 2025 with terminal growth of 2%, corresponding to inflation.
- **DCF Exit Multiple:** a similar methodology was used but instead of using a perpetuity value, the sale of LNA in 2025 was assumed, as well as the current exit multiple of the company - 11.8x.

Extrinsic Methodology

- **Precedent Transactions:** 11 transactions were considered within the nursing home industry since 2004, with an average announced value of €765 M.
- **Historical Peers' Multiples:** an historical 7-year EV/EBITDA analysis of the peers was performed in order to mitigate potential fluctuations in the current price driven by external market conditions. The peers considered were: Orpea, Korian, Attendo, Philajalina and Mediclin AG.
- **2018 EV/EBITDA Multiples:** the methodology used to perform the current valuation of LNA Santé was based on LNA's and its peers' current value.

* The computation of cost of debt was the following: total interests paid over the total debt

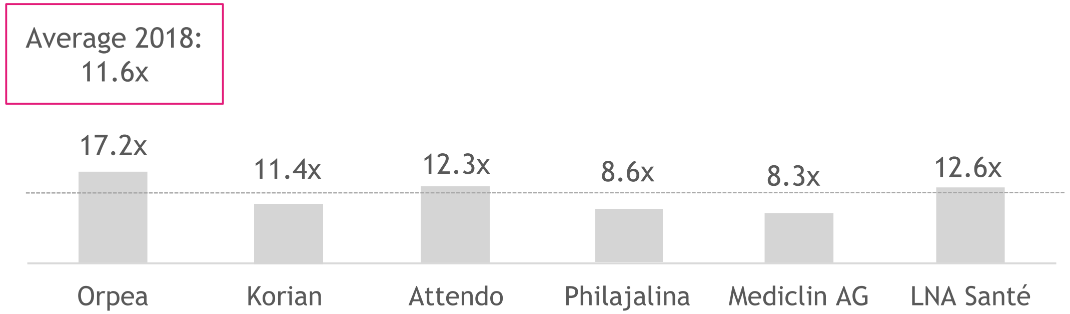
Sources: Bloomberg

VALUATION | Trading Comparables and Precedent Transactions

In 2018, trading comparables yielded an EV/EBITDA multiple of 11.6x, higher than the precedent transactions valuation - 9.8x. However, the trading comparables multiple of the past 7 years was the highest multiple – 12.2x

1 Trading Comparables

- The trading comparables valuation relies on the idea that similar assets sell at similar prices, based on market efficiency. Hence, in order to better grasp not only the current market outlook but also the past, the median EV/EBITDA of the past 7 years of each comparable company was used. The result averaged a multiple of 12.2x or €612 M.
- However, the 2018 EV/EBITDA multiples lay below the median of the past 7 years, at an average multiple of 11.6x, corresponding to a valuation of €582 M.

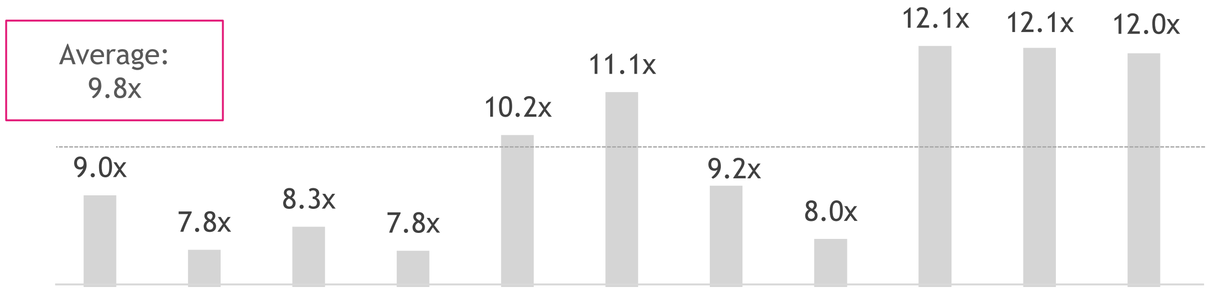


EV/EBITDA Multiples Per Year

Year	Min	Median	Max	Average
2018	8.3x	11.42x	17.2x	11.55x
2017	9.7x	11.79x	20.6x	14,32x
2016	6.8x	13.39x	15.2x	12.32x
2015	5.3x	13.7x	33.9x	16.72x
2014	5.9x	13.08x	13.9x	10.94x
2013	9.3x	12.04x	13.4x	11.57x
2012	7.6x	11.58x	12.6x	10.60x

2 Precedent Transactions

- Precedent transactions multiples were taken into consideration since it is important to perceive the premiums of the transactions being carried in the industry. This analysis is grounded on publicly available information of similar purchased companies in the past years.
- The precedent transactions valuation yielded a multiple of 9.8x, which translates into a valuation of €492 M.

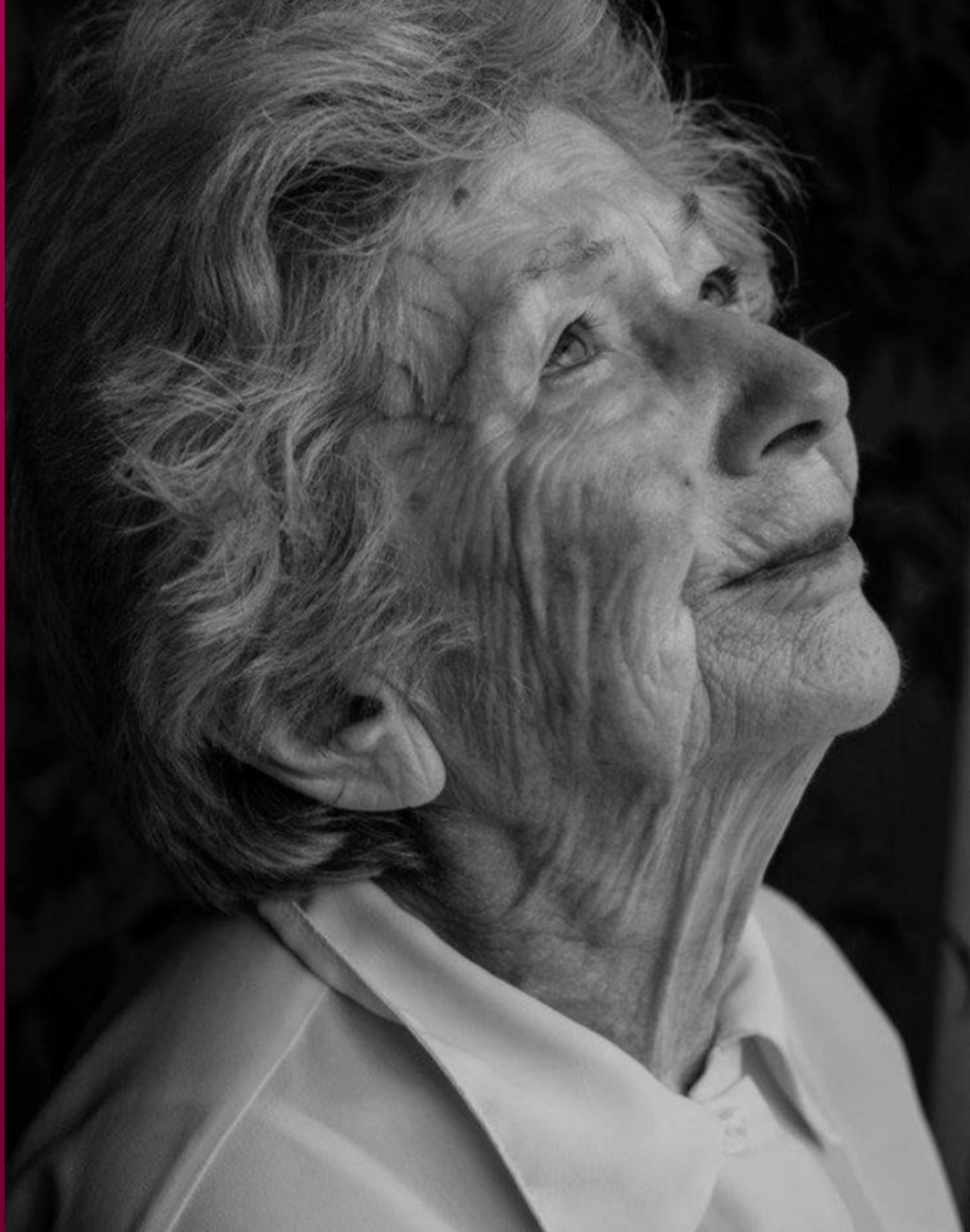


Suitable Deals for LNA Santé

Date	Target Name	Acquirer Name	Total Value $M	TV/EBITDA
2018	Civitas Solutions Inc	Centerbridge Partners LP	1340	9.0x
2013	Orpea	Canada Pension Plan	443	7.8x
2012	Curanum AG/Munich	Korian SA	317	8.3x
2011	Rehabcare Group LLC	Kindred Healthcare LLC	1277	7.8x
2010	Odyssey HealthCare Inc	Gentiva Health Services Inc	891	10.2x
2007	21st Century Oncology Inc	VCP I Inc	999	11.1x
2007	Surgical Care Affiliates Inc/Old	TPG Capital LP/US	950	9.2x
2007	Symbion Inc/TN	Stone Point Capital LLC	603	8.0x
2006	Horizon Health Corp	Psychiatric Solutions Inc	413	12.1x
2005	Medidep SA	Korian SA	217	12.1x
2004	Mariner Health Care Inc	National Senior Care Inc	967	12.0x

Sources: Bloomberg

Capital Structure



CAPITAL STRUCTURE | Proposed Capital Structure

After a debt market analysis with *Invesco*, a bullet Term Loan A amounting to €276,3 M will be used, corresponding to 5.5x EBITDA

Sources of Funds	€ M	x EBITDA	%
Senior debt			
Term Loan A	**276,3**	**5.5x**	**45,3%**
Term Loan B	0,0	0.0x	0,0%
Term Loan C	0,0	0.0x	0,0%
Subordinated debt			
Mezzanine	0,0	0.0x	0,0%
Total debt	**276,3**	**5.5x**	**45,3%**
Fixed Return Instrument	**294,0**	**5.9x**	**48,2%**
Ordinary Equity	40,0	0.8x	6,5%
Institutional Investor	36,4		
Sweet Equity	**3,6**		**9,0%**
Total Equity	**334,0**	**6.6x**	**54,7%**
Total sources	**618,3**	**12,2**	**1**

Uses		€ M
EBITDA 2018		50
Multiple		11.8x
Enterprise Value		**591**
Fees	**3,3%**	**19,5**
Due Diligence	0,3%	1,8
Arrangement Fee	1,5%	8,9
Banking Fees	1,5%	8,9
Total Uses		**618,4**

1 Debt Market Analysis

With the help of *Invesco* it was made a thorough market analysis on the industry's practice of capital structure and the main outputs are the following:

- Commonly, a deal in this industry does not have a debt multiple above 6x EBITDA due to a higher risk being associated to a higher debt multiple. Hence, a comfortable 5.5x multiple was assumed as a result of Invesco's advisory.
- The recommendation was to incur in a bank loan instead of issuing bonds to accommodate a higher degree of flexibility.
- Currently, the market has not been using the capex facility financing. Therefore, a revolving credit facility is the best alternative to finance the expansion CAPEX needs.
- Furthermore, the margins for loans applied in the market correspond to a floating rate of 3,75% plus the *Euribor*. Since the latter has been negative, it does not have an impact on the rate calculation.

2 Debt Structure

LNA Santé's debt will be repaid and the company will be refinanced. The new capital structure will be based on a bullet senior debt issuance and total debt will account for 45,3% of total sources. According to *Invesco*, the best debt structure is as follows:

- A Term Loan A will be issued with 6 years to maturity (2024). It represents 5.5X EBITDA, or €276,3 M. It accrues interests of 3,75% a year (a banking fee of 1,5% was assumed for this issuance).
- A Revolving Credit Facility of €100 M will be opened in 2019 to finance the expansion CAPEX and help face the debt interest expenses. The revolving will be amortized in 6 yearly payment periods. A margin of 3,75% was assumed as well as a Commitment fee of 30%.

3 Equity Structure

Total Equity will account for 54,7% of total sources corresponding to €334 M. It will be composed by:

- A Fixed Return Instrument amounting 48,2% of sources, or €294 M. This instrument will guarantee an annual rate of return (PIK element) of 12,5%. The reason why the management will not co-invest in the FRI is explained in the following slide.
- Ordinary Equity will be composed by 9% of sweet equity (€3,6 M) which represents approximately 1% of total equity.

CAPITAL STRUCTURE | Management Package

The management team will be entitled of 9% of ordinary shares after investing two times its salary. This will correspond to an Envy Ratio of 9

Management Ownership

- Currently, the Management team is composed by a CEO, CFO and COO that receive an annual wage compensation, shares from the company and a performance compensations. The latter method of compensation is conditional to performance of the firm and corresponds to 1% of Net Income's variation from one year to another. The current management is composed by Jean-Paul Siret, the CEO Willy Siret, the COO and Damien Billard, the CFO and in 2018 each one has been attributed 2 500 shares as part of this package.

- This family business must have strong incentives to be aligned with the shareholders and hence, will invest in equity two times its salary corresponding to a sweet equity of €3,6 M.

- Furthermore, the management team will be reinforced by a set of new directors to ensure the well-functioning of the firm with the upcoming growth. These will have a compensation scheme specially designed to ensure a great alignment with the fund. These directors are already key employees in the firm with great experience in the business (Annex 7).

- Wage compensation won't change and each member of management will have 2x its salary in sweet equity, as mentioned before. This would represent 9% of ordinary shares.

- The management ownership will not be rolled-over given that the exit proceeds are sufficient to keep the management team on board with the fund's mission. Additionally the re-allocated directors are already well aligned with the new promotion and shift of function within the firm. Equity rollover are a common practice because it motivates the management team to keep advising correctly the ongoing operations of the firm. Compensating the management in excess may lead to low efforts into running the business given that there is already a good amount of money in their own bank accounts. Once again, in LNA's case there is no need for co-investment for the aforementioned reasons.

Name	Position	Fixed	Performance	Shares	Others	Total
Existing Management						
Jean-Paul Siret	Chief Executive Officer	147 000 €	113 812 €	112 000 €	4 551 €	377 363 €
Willy Siret	Chief Operating Officer	137 000 €	113 812 €	112 000 €	2 537 €	365 349 €
Damien Billard	Chief Financial Officer	137 000 €	113 812 €	112 000 €	3 068 €	365 880 €
Re-allocations						
Christine Lioret	Head of Growth	120 000 €	113 698 €		3 068 €	236 766 €
Robert Dardanne	Head of ALF	110 000 €	84 472 €		3 068 €	197 540 €
Flavia Lorre	Head of ACR	110 000 €	10 680 €		3 068 €	123 748 €
Maux Roux	Head of HC	110 000 €	18 546 €		3 068 €	131 614 €
					Total	**1 798 261 €**

Equity	€ Millions	Ownership
Institutional Strip	**334**	
Fund	**330**	
Fixed Return Instrument	294	
Institutional Ords	36	91%
Management	**4**	
Fixed Return Instrument		
Institutional Ords		
Sweet Equity	4	9%
Total Equity	**334**	**100%**

Individual Paper | Private Equity Challenge

Taking the course of Private Equity was the main driver for my decision to apply for this thesis. Doing a course of only three months was not enough to fulfill my hanger to know more about Private Equity and hence, having the chance to spend quality time in building a project on this topic seemed the right opportunity. Furthermore, the opportunity to work in a group answered my wishes for this semester.

This semester was important to consolidate many hard skills developed throughout the first year of masters such as research, data and financial analysis.

Furthermore, the last months were months of many challenges to be defeated. In a grup and as team it was needed to manage expectations, schedules, different points of view, different working perspectives. There were many moments of contrasting ideas and opportunities to grow and learn from each other. For me, this thesis was a time to learn to be more humble and to let myself be managed by an amazing team!

A final remark to Duarte, Gonçalo and Marta for teaching me so many things!

Maria Inês Costa e Sousa de Sena Esteves